

OPEN MEETING ITEM



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COMMISSIONERS
BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

2014 MAR 19 AM 8 42

DATE: MARCH 19, 2014

DOCKET NO.: W-02069A-13-0261

TO ALL PARTIES:

ORIGINAL

Enclosed please find the recommendation of Administrative Law Judge Scott M. Hesla. The recommendation has been filed in the form of an Order on:

SUNRISE WATER COMPANY
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

MARCH 28, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

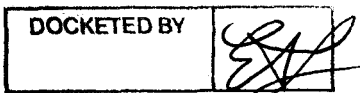
APRIL 8, 2014 and APRIL 9, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

MAR 19 2014



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 SUNRISE WATER COMPANY, AN ARIZONA
10 CORPORATION, FOR AUTHORITY TO INCUR
11 LONG-TERM DEBT FROM THE WATER
12 INFRASTRUCTURE FINANCE AUTHORITY OF
13 ARIZONA.

DOCKET NO. W-02069A-13-0261

DECISION NO. _____

ORDER

14 Open Meeting
15 April 8 and 9, 2014
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 * * * * *

19 Having considered the entire record herein and being fully advised in the premises, the
20 Commission finds, concludes, and orders that:

21 **FINDINGS OF FACT**

22 **Procedural History**

23 1. On July 31, 2013, Sunrise Water Company ("Sunrise" or "Company") filed an
24 application with the Arizona Corporation Commission ("Commission") requesting authorization to
25 incur long term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA") in an
26 amount of \$755,000 ("Financing Application").

27 2. On August 2, 2013, Sunrise filed a Notice of Errata correcting the number of
28 customers Sunrise serves to 1,450.

3. On January 23, 2014, the Commission's Utilities Division ("Staff") issued a Staff
Report recommending approval of Sunrise's financing application, subject to certain terms and
conditions.

...

1 4. On January 31, 2014, Sunrise filed a Response to the Staff Report stating that the
2 Company generally accepts Staff's recommendations, subject to the following clarifications: that
3 approval of the requested financing not require a particular arsenic-treatment system configuration;
4 that approval of the requested financing not limit the size of the storage tank; and that approval of the
5 requested financing make it clear that the primary purpose of the projects being financed is to meet
6 current customer demands.

7 5. On February 20, 2014, Sunrise filed a letter averring that the Company mailed notice
8 of the Financing Application to each customer of record on February 19, 2014. No customers filed
9 comments in response to the notice.

10 6. On March 14, 2014, Sunrise filed a Request for Recommended Opinion and Order
11 requesting that the Hearing Division issue a Recommended Opinion and Order in time for the
12 Commission's consideration at the Open Meeting scheduled on April 8 and 9, 2014.

13 **Background**

14 7. Sunrise is a Class B water utility providing water utility service to approximately
15 1,450 primarily residential customers located in a service area of approximately 3.9 square miles in
16 northern Peoria, Maricopa County, Arizona. Sunrise's Certificate of Convenience and Necessity
17 ("CC&N") was granted in Decision No. 40017 (May 19, 1969). Sunrise's current rates and charges
18 were established in Decision No. 71445 (December 23, 2009).

19 8. According to a Maricopa County Environmental Services Department ("MCESD")
20 Compliance Status Report dated August 23, 2013, the Sunrise water system has no major deficiencies
21 and is delivering water that meets the water quality standards required by 40 C.F.R. §§ 141.1, *et seq.*
22 (National Primary Drinking Water Regulations) and Arizona Administrative Code ("A.A.C."), Title
23 18, Chapter 4.

24 9. Staff's Consumer Services Section reports that for the period of January 1, 2010,
25 through January 7, 2014, no complaints were filed against Sunrise.

26 10. Staff's Compliance Section database shows no outstanding compliance issues for the
27 Company.

28 ...

11. The Company is in good standing with the Commission's Corporations Division.

Financing Proposal

12. Sunrise's Financing Application requests approval of a WIFA loan in the amount of \$755,000, at an interest rate of 4.5 percent per annum, not to exceed 6.5 percent, with an amortization period of 20 years. The purpose of the loan is to finance the construction of improvements at Well No. 2 Booster Pumping Station Site ("Well No. 2") and the Well No. 4 Booster Pumping Station Site ("Well No. 4"). The estimated improvement costs include the required engineering, permitting, construction and related services to complete the projects.

13. With respect to Well No. 2, the Company is proposing to construct an arsenic treatment system¹ and install two 30 horsepower ("hp") pumps with variable frequency drives ("VFD"). Staff states that Well No. 2 has been out of service since January 2006, due to the presence of high concentrations of arsenic. According to Sunrise's 2012 Annual Report, the concentration of arsenic in the well is approximately 43 parts per billion ("ppb"), which exceeds the maximum contaminant level ("MCL") for arsenic of 10 ppb. In its Financing Application, the Company indicates that the purpose of the arsenic treatment system is to bring Well No. 2 into compliance with the MCL for arsenic. The Company further indicates that the purpose of the two 30 hp pumps is to replace five smaller booster pumps, which include three 10 hp booster pumps and two 20 hp booster pumps.

14. With respect to Well No. 4, the Company is proposing to construct an additional storage tank in order to meet system demands. According to the Company, its existing 100,000 gallon storage tank is inadequate to meet current customer and fire flow demands. Sunrise states that while it is only requesting debt financing for the cost of constructing a 250,000 gallon storage tank, the Company is considering constructing a storage tank of up to 400,000 gallons in size. In the event

¹ The Company states that it has not yet finalized the specific configuration of the arsenic treatment system to be installed. We note that our approval of the Company's requested financing does not require the Company to install a particular arsenic treatment system configuration.

1 that Sunrise constructs a storage tank larger than 250,000, the Company explains that it is not
2 requesting debt financing to cover that additional cost.²

3 15. Staff reviewed the Company's proposed plant additions and improvements and
4 concluded that they are appropriate and that the related costs estimates are reasonable. However,
5 Staff stated that no used and useful determination of the proposed additions and improvements was
6 made, and no particular future treatment should be inferred for ratemaking or rate base purposes.

7 16. In analyzing Sunrise's Financing Application, Staff performed a financial analysis of
8 the effects of the proposed debt on the Company, utilizing historical information for the year ended
9 December 31, 2012. Staff's pro forma analysis reflected issuance of a 20 year, \$755,000 amortizing
10 loan at 4.5 percent and at 6.5 percent. Staff calculated the Company's pro forma debt service
11 coverage ratio ("DSC")³ and determined that Sunrise would have a pro forma DSC of 7.10 with an
12 interest rate of 4.5 percent and a pro forma DSC of 6.02 with an interest rate of 6.5 percent. A DSC
13 lower than 1.0 means that debt service obligations cannot be met by cash generated from operations
14 and that another source of funds is needed to avoid default. According to Staff, the Company's cash
15 flow from operations is sufficient to cover debt service on the loan under either interest rate scenario.

16 17. In reviewing the Company's capital structure, Staff observed that Advances In Aid of
17 Construction ("AIAC") and Contributions In Aid of Construction ("CIAC") constituted 96 percent of
18 the Company's total capital. Staff notes that it typically recommends that combined AIAC and CIAC
19 funding not exceed 30 percent of total capital. Staff expresses concern regarding the Company's
20 continuing overreliance on AIAC and CIAC. According to Staff, refunds related to AIAC can place
21 a significant burden on the utility's cash flow requirements. Further, Staff states that the amount of
22 CIAC on a utility's books can also affect available cash flows because amortization of CIAC is
23 recognized as a reduction to recoverable depreciation expense when setting rates. Sunrise indicated
24 to Staff that while it did not receive any additional AIAC in years 2009 through 2012, subdivision
25

26 ² The Company estimates that the additional cost to construct a 400,000 gallon would be approximately \$174,000. We
27 note that our approval of the Company's requested financing does not limit the Company to installing a 250,000 gallon
storage tank.

28 ³ DSC represents the number of times internally generated cash will cover required principal and interest payments on
debt.

1 development in the Company's CC&N territory resumed during 2013 and the Company expects such
2 development to continue.

3 18. Staff notes that Sunrise is generally aware of the cash flow challenges that could result
4 from the Company's extensive previous and continued reliance on AIAC and CIAC. Staff
5 recommends that Sunrise be ordered to undertake detailed cash flow forecasts relating to the use of
6 AIAC and CIAC and provide this information to Staff on or before June 1st of each year. Staff states
7 that the annual forecasts should include a five-year analysis and give specific consideration to the
8 reasonableness of infusing investor-supplied funding into the Company's capital structure to increase
9 the percentage of equity. Staff represents that it will endeavor to work with the Company to reach an
10 agreement regarding the extent of analysis required for each forecast and reach an understanding as to
11 the required reporting.

12 **Water Loss**

13 19. Sunrise is located within an Arizona Department of Water Resources ("ADWR")
14 active management area ("AMA"). According to a Water Compliance Report dated August 26, 2013,
15 Sunrise's lost and unaccounted for water in 2012 was 11.16 percent, and has been greater than 10
16 percent for the past three years, averaging 11.23 percent during that time. Staff states that ADWR is
17 currently in the process of arranging a meeting with Sunrise to discuss efforts for Sunrise to achieve
18 compliance with respect to lost and unaccounted for water. Although the Company represents that its
19 lost and unaccounted for water is currently at 9 percent, Staff recommends that the Company file
20 twelve months of actual water use data in order to verify that percentage. If the water use data
21 reveals a water loss greater than 10 percent, Staff recommends that the Company file a report
22 containing a detailed analysis and plan to reduce the water loss to 10 percent or less.

23 **Staff Recommendations**

24 20. Staff recommends that the Commission:

- 25 a) Grant authorization to incur a 20-year amortizing loan in an amount not to
26 exceed \$755,000 pursuant to a loan agreement with WIFA and at an
27 interest rate not to exceed that available from WIFA;
28 b) Authorize the Company to pledge its assets in the State of Arizona
pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with
the WIFA loan;

- c) Direct the Company to file, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted;
- d) Direct the Company to provide to the Utilities Division, upon Staff request, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein;
- e) Establish an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2016;
- f) Direct the Company to file its next general rate case no later than June 30, 2017, using a test year ending December 31, 2016;
- g) Authorize the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted;
- h) Authorize the Company to file, as a compliance item in this docket, by June 30, 2016, a copy of the Maricopa County Environmental Services Department Certificate of Approval of Construction for the Well No. 2 and Well No. 4 site improvements;
- i) Direct the Company to continue to undertake detailed cash flow forecasts relative to the use of AIAC and CIAC and to provide the results of this analysis to Staff on an annual basis. Such analysis should be provided on or before June 1st of each year until further ordered by the Commission; and
- j) Direct the Company to file, as a compliance item in this docket, no later than June 30, 2014, twelve (12) months of actual use water use data. If the reported water loss is greater than 10 percent, the Company should prepare a report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, the Company should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, should be docketed as a compliance item no later than August 31, 2014.

Resolution

21. Based on Staff's analysis, the Company's water system currently has a production shortfall of approximately 103 gallons per minute. Staff and the Company agree that Well No. 2, if made operational, could meet that water production shortfall. Further, Staff and the Company agree that installing additional storage at Well No. 4 is necessary to meet current customer and fire flow demands. Accordingly, we find that Staff's recommendations set forth in Findings of Fact No. 20 are reasonable and appropriate, and we adopt them.

...

...

CONCLUSIONS OF LAW

1
2 1. Sunrise Water Company is a public service corporation within the meaning of Article
3 XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, and 40-302.

4 2. The Commission has jurisdiction over Sunrise Water Company and of the subject
5 matter of the application.

6 3. Notice of the application was provided in accordance with law.

7 4. The financing approved herein is for lawful purposes within Sunrise Water
8 Company's corporate powers, is compatible with the public interest, with sound financial practices,
9 and with proper performance by Sunrise Water Company of service as a public service corporation,
10 and will not impair Sunrise Water Company's ability to perform that service.

11 5. The financing approved herein is for the purposes stated in the application and is
12 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
13 chargeable to operating expenses or to income.

14 6. Approval of the proposed financing should not guarantee or imply any specific
15 treatment of any capital additions for ratemaking or rate base purposes.

16 7. Staff's recommendations set forth in Findings of Fact No. 20 are just and reasonable
17 and in the public interest.

ORDER

18
19 IT IS THEREFORE ORDERED that Sunrise Water Company is hereby authorized to incur
20 long-term financing, in the form of a 20-year amortizing loan in an amount of \$755,000, pursuant to a
21 loan agreement with the Water Infrastructure Finance Authority of Arizona, at an interest rate not to
22 exceed that available from the Water Infrastructure Finance Authority of Arizona.

23 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
24 shall terminate on December 31, 2016.

25 IT IS FURTHER ORDERED that Sunrise Water Company is hereby authorized to pledge,
26 mortgage, lien, and/or otherwise encumber its assets in the State of Arizona pursuant to A.R.S. § 40-
27 285 and A.A.C. R18-15-104, in connection with the indebtedness authorized herein.
28

1 IT IS FURTHER ORDERED that Sunrise Water Company is hereby authorized to engage in
2 any transaction and to execute any documents necessary to effectuate the authorization granted
3 herein.

4 IT IS FURTHER ORDERED that such authority is expressly contingent upon Sunrise Water
5 Company's use of the proceeds for the purposes set forth in its application.

6 IT IS FURTHER ORDERED that Sunrise Water Company shall file, as a compliance item in
7 this docket, within 60 days of the execution of any financing transaction authorized herein, a notice
8 confirming that such execution has occurred and a certification by an authorized Company
9 representative that the terms of the financing fully comply with the authorizations granted herein.

10 IT IS FURTHER ORDERED that Sunrise Water Company shall provide to the Commission's
11 Utilities Division, upon request, a copy of any loan documents executed pursuant to the
12 authorizations granted herein.

13 IT IS FURTHER ORDERED that Sunrise Water Company shall file its next general rate case
14 no later than June 30, 2017, using a test year ending December 31, 2016.

15 IT IS FURTHER ORDERED that Sunrise Water Company shall file, as a compliance item in
16 this docket, by June 30, 2016, a copy of the Approval of Construction from the Maricopa County
17 Environmental Services Department for the improvements at the Well No. 2 Booster Pumping
18 Station Site and the Well No. 4 Booster Pumping Station Site, as discussed herein.

19 IT IS FURTHER ORDERED that Sunrise Water Company shall prepare and submit to the
20 Commission's Utilities Division, on or before June 1st of each year, a detailed cash flow forecast
21 relating to its use of Advances In Aid of Construction and Contributions In Aid of Construction, as
22 discussed herein, with the first forecast due on or before June 1, 2015.

23 IT IS FURTHER ORDERED that Sunrise Water Company shall file, as a compliance item in
24 this docket, no later than June 30, 2014, the most recently available twelve consecutive months of
25 water use data.

26 IT IS FURTHER ORDERED that the Commission's Utilities Division shall review the filed
27 water use data and notify Sunrise Water Company of its current water loss percentage.

28 ...

1 IT IS FURTHER ORDERED that if Sunrise Water Company's current water loss is greater
 2 than 10 percent, Sunrise Water Company shall prepare a water loss reduction report containing a
 3 detailed analysis and plan to reduce the water loss to 10 percent or less. If Sunrise Water Company
 4 believes it is not cost effective to reduce the water loss to less than 10 percent, it shall submit a
 5 detailed cost benefit analysis to support its opinion. In no case shall Sunrise Water Company allow
 6 water loss to be greater than 15 percent.

7 IT IS FURTHER ORDERED that if Sunrise Water Company's current water loss is greater
 8 than 10 percent, Sunrise Water Company shall file, as a compliance item in this docket, no later than
 9 August 31, 2014, the water loss reduction report or the detailed cost benefit analysis, whichever is
 10 applicable to Sunrise Water Company pursuant to this Decision.

11 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
 12 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
 13 proceeds derived thereby for purposes of establishing just and reasonable rates.

14 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

15 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION.**

16
 17 CHAIRMAN

COMMISSIONER

18
 19 COMMISSIONER

COMMISSIONER

COMMISSIONER

20 IN WITNESS WHEREOF, I, JODI JERICH, Executive
 21 Director of the Arizona Corporation Commission, have
 22 hereunto set my hand and caused the official seal of the
 23 Commission to be affixed at the Capitol, in the City of Phoenix,
 this _____ day of _____ 2014.

24 JODI JERICH
 25 EXECUTIVE DIRECTOR

26 DISSENT _____

27 DISSENT _____
 28 SMH:tv

1 SERVICE LIST FOR:

SUNRISE WATER COMPANY

2 DOCKET NO.:

W-02069A-13-0261

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